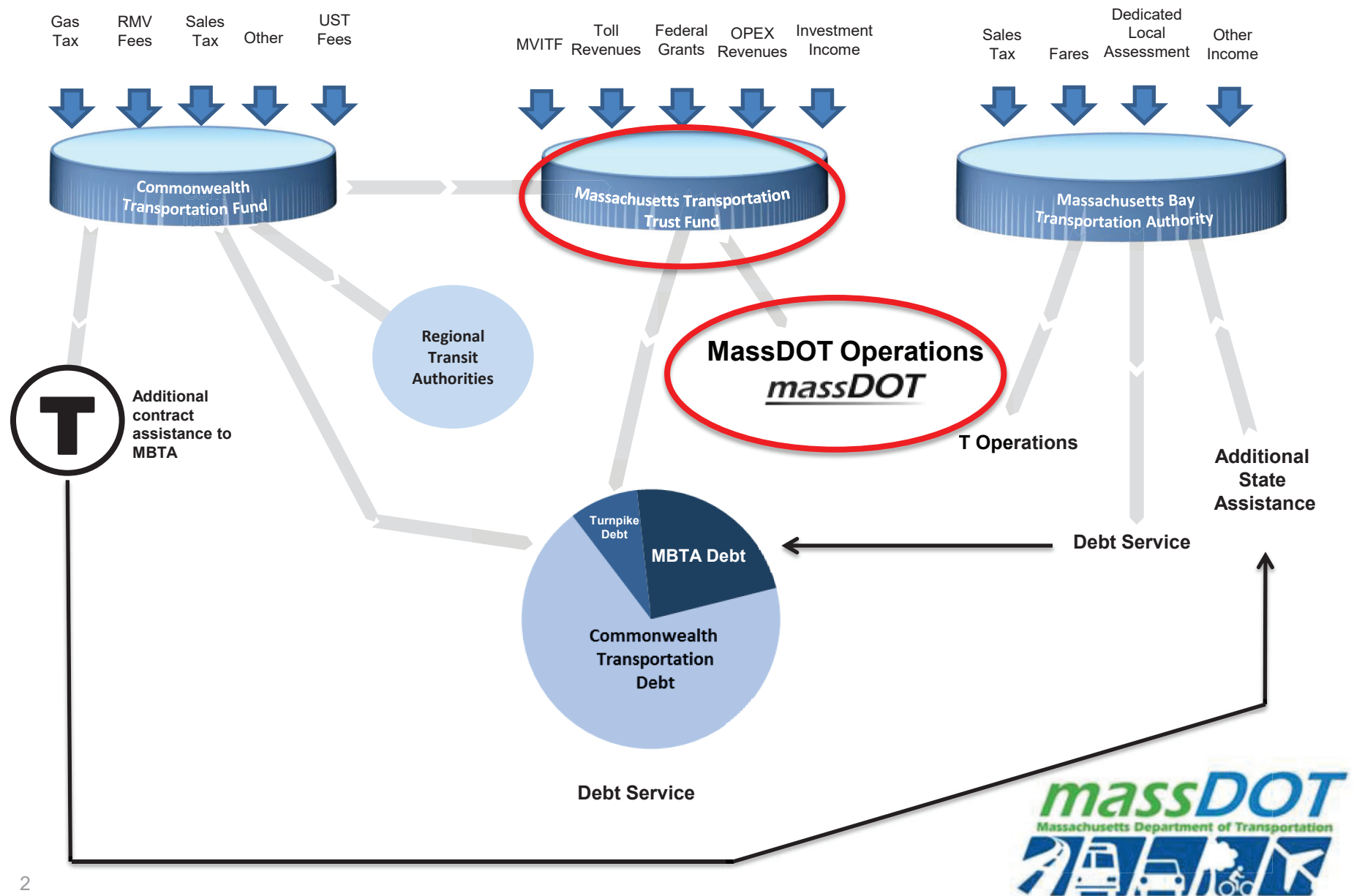




MassDOT
FY18 Budget Issues Preview
May 8, 2017



Transportation Funding in Massachusetts is Complicated



MassDOT's Budget

- MassDOT's state funding is provided in the form of transfers from the Commonwealth Transportation Fund (CTF) into the Massachusetts Transportation Trust Fund (MTTF)
- In addition to the CTF transfer, the MTTF receives toll revenues and departmental revenues (like real estate and advertising)
 - Toll revenues can only be used to fund expenses associated with toll facilities so MassDOT's budget consists of two budgets, one state funded and one toll funded
- The balance in the MTTF is available to the Department without further appropriation by the legislature
- The Board approves the budget based on resources available in the MTTF but does not control the size of the CTF transfer, which is determined through the state budget process



Historical and Proposed CTF Transfers

(in millions)	FY15	FY16	FY17 GAA	FY18 H1	FY18 HWM
MassDOT Operations	\$324.4	\$337.5	\$329.0	\$344.3*	\$324.3
MBTA	\$122.6	\$187.0	\$187.0	\$127.0**	\$127.0**
RTAs	\$80.0	\$82.0	\$82.0	\$80.0	\$80.0
Merit Rating Board	\$9.3	\$9.6	\$9.6	\$9.7	\$9.7
TOTAL	536.3	\$616.1	\$607.6	\$561.0	\$541.0

* H1 increase in MassDOT operations reflects commitment to pre-fund more Snow and Ice and not rely so heavily on supplemental budgets. H1 figure would support an Snow and Ice spend of \$82m excluding toll-funded), roughly an average of the previous five years (fy12-16)

** MBTA funding shifted to capital spending due to reduction in operating deficit

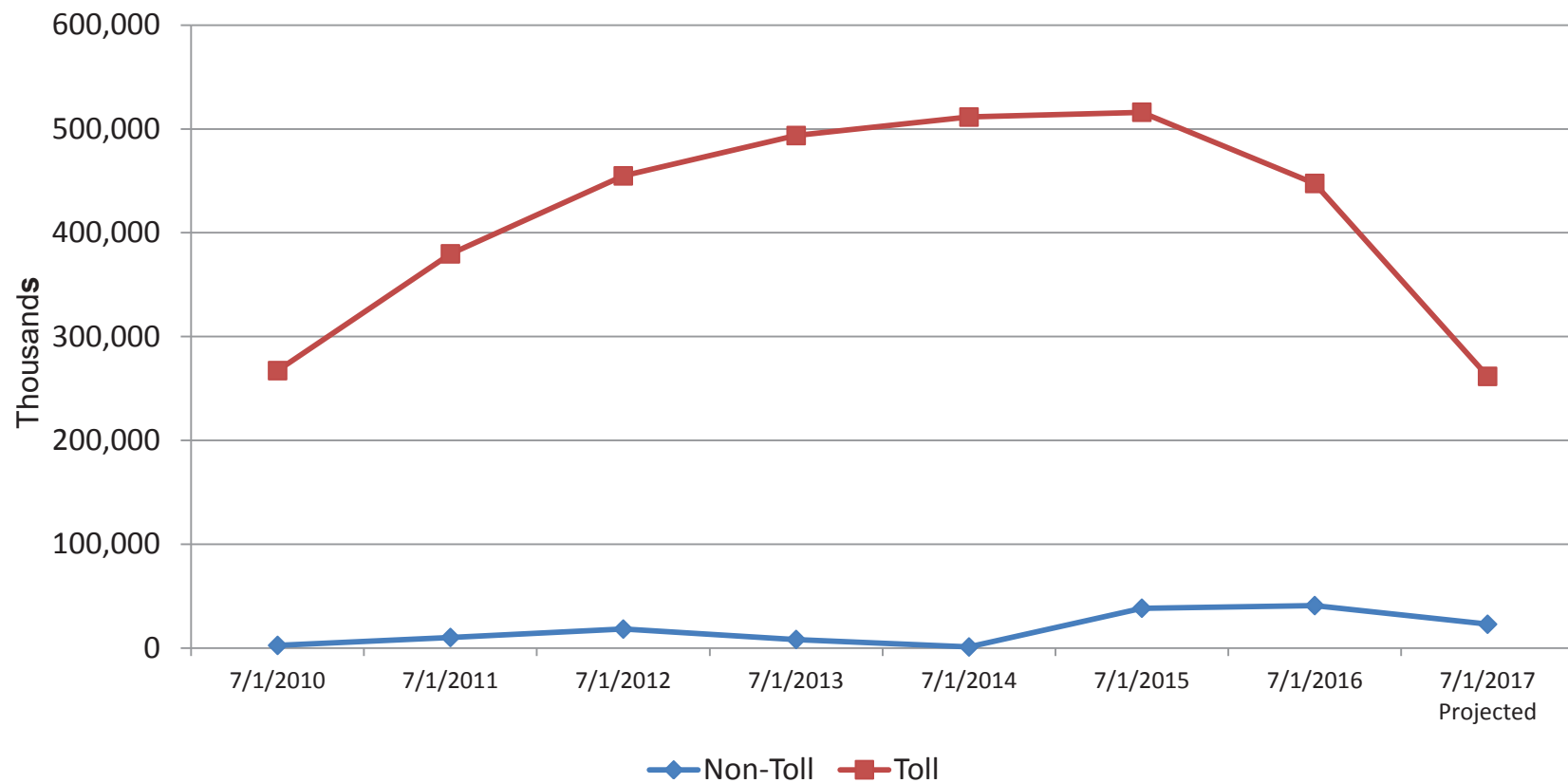


MassDOT's Reserves

- Unused funds stay in reserve in the MTTF, and may accumulate over time, creating reserve funds in the form of a fund balance
 - These reserves are important to cover unanticipated spending (such as snow and ice), as well as to make up for unexpected revenue shortfalls
- MassDOT also has access to reserve amounts in the Motor Vehicle Inspection Trust Fund, after all obligations to the motor vehicle inspection program and Department of Environmental Protection have been met
- Toll revenues are first used to cover operating costs for tolled facilities and remaining amounts are left in reserve to use for PAY-GO capital projects
- The Board can and has approved budgets which draw down MTTF and other reserves, but needs to be careful when relying on reserves in order to ensure that MassDOT's level of spending can be sustained over time



MTTF Fiscal Year Starting Fund Balances



Changes From FY17 to FY18

- The FY17 budget included four months of toll taker salaries, but the implementation of AET has eliminated that expense from the FY18 budget
- The FY17 budget used operating funds for the 20% match needed to pay for positions associated with federally-funded capital projects (for which 80% of the funding is provided by federal funds) due to state statutory language barring the use of capital funds for salaries
 - House 1 proposed, and the House budget includes, language that allows capital dollars to be used to match 80% federally-funded capital positions
 - The proposed FY18 budget will therefore separate out capital-related expenses (and move them to the capital budget) and use capital dollars to support hiring of more engineers to support execution of the capital plan
 - This will both assist capital delivery and reduce reliance on overtime to compensate for under-staffing



FY18 Budget Issues

- **Overtime:** *Better manage overtime to allow funding of more positions.* The impact of early retirement and voluntary separation programs on headcount, along with an aggressive capital plan, have resulted in significant overtime expenses for MassDOT which in turn reduce funding available to fill positions.
- **Reserve Fund Balances:** *Because MassDOT has reduced both toll and non-toll reserves, any additional draws need to be carefully budgeted and managed.*
 - The implementation of AET in FY17 rather than over three years as originally planned resulted in a significant draw down on toll reserves.
 - Non-toll reserves are budgeted to be drawn down significantly in FY17 and it is likely some reserve draw will be needed to balance the FY18 budget.
- **Snow and Ice:** *Budget for snow and ice to cover historic average expenditures without the need to rely on a state supplemental budget.* Historically, MassDOT has relied heavily on supplemental state funding to cover under-budgeted Snow and Ice expenses. In FY16 we relied heavily on drawing down non-toll reserves to cover the budget shortfall. MassDOT should reduce its reliance on state supplemental funding to cover expected snow and ice expenses.



Snow and Ice

- MassDOT has the statutory ability to overspend on snow and ice (up to \$50 million above the budgeted amount), however the funds eventually have to be appropriated through a state-approved supplemental budget
- Historically, snow and ice have been underfunded, with MassDOT relying on the statutory spending authority to ensure that contractors are paid and counting on supplemental budgets to reimburse the funds used for the overspend
- As a result, MassDOT relies on supplemental state budgets to fund Snow and Ice even in years with moderate or average winters
- With state revenues coming in below forecasts in FY 16 and again in FY17, underfunding Snow and Ice is not financially responsible and the MassDOT budget should not automatically assume that supplemental budget funds will be available
- The Governor's House 1 budget therefore requested an increased transfer from the Commonwealth Transportation Fund in order to support a level of funding for snow and ice approximating recent historical averages, reducing reliance on later supplemental budgets.



Snow and Ice

	FY12	FY13	FY14	FY15	FY16	FY 17 Budget	FY 17 Actual YTD	FY18 Target
State Funded Total	\$35.2	\$92.0	\$119.8	\$151.2	\$80.3	\$92.1	\$126.0	\$82.1
Toll Funded Total	\$6.2	\$9.9	\$9.3	\$9.7	\$5.9	\$9.1	\$7.0	\$9.1.
Grand Total	\$41.4	\$101.9	\$129.1	\$160.9	\$86.3	\$101.2	\$133.0	\$91.2

FY17's \$92.1m was budgeted as \$62.1m and an anticipated \$30.0m in supplemental funding

FY18 H1 would support an initial budget of as \$82.1 million, approximately the average snow and ice expenditures over the past five years

